

1-1 By: Ellis S.B. No. 1618  
1-2 (In the Senate - Filed March 14, 2003; March 20, 2003, read  
1-3 first time and referred to Committee on State Affairs;  
1-4 April 29, 2003, reported adversely, with favorable Committee  
1-5 Substitute by the following vote: Yeas 7, Nays 0; April 29, 2003,  
1-6 sent to printer.)

1-7 COMMITTEE SUBSTITUTE FOR S.B. No. 1618 By: Madla

1-8 A BILL TO BE ENTITLED  
1-9 AN ACT

1-10 relating to regulation of certain life insurance.

1-11 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

1-12 SECTION 1. Chapter 1101, Insurance Code, as effective June  
1-13 1, 2003, is amended by adding Subchapters E and F to read as  
1-14 follows:

1-15 SUBCHAPTER E. CERTAIN POLICIES WITH SMALL FACE AMOUNT

1-16 Sec. 1101.201. APPLICABILITY. (a) This subchapter  
1-17 applies to each insurer authorized to write life insurance under  
1-18 Chapter 841, 882, 884, or 982. This subchapter does not apply to an  
1-19 insurer operating under Chapter 881, 885, 886, 887, or 888 or an  
1-20 insurer exempt under Section 887.102.

1-21 (b) This subchapter applies to any individual or group life  
1-22 insurance policy issued in this state, including an industrial  
1-23 insurance policy offered under Chapter 1151. This subchapter does  
1-24 not apply to a life insurance policy issued to fund prepaid funeral  
1-25 benefits as defined in Section 154.002(9), Finance Code.

1-26 Sec. 1101.202. FACE AMOUNT. This subchapter applies only  
1-27 to a life insurance policy issued in this state with an initial face  
1-28 amount of \$15,000 or less.

1-29 Sec. 1101.203. REQUIRED INCREASE IN FACE AMOUNT.  
1-30 (a) Except as provided by Section 884.302, a life insurance policy  
1-31 with an initial face amount of \$2,000 or less must include an option  
1-32 for the insured to increase the face amount of the policy to not  
1-33 more than \$15,000.

1-34 (b) The insurer may require that the insured meet the  
1-35 insurer's current evidence of insurability for the same or similar  
1-36 policy forms the insurer currently offers in the market.

1-37 (c) The insurer must provide the additional face amount  
1-38 required by this section at the insurer's current applicable  
1-39 underwriting standards, rates, and contestability period for  
1-40 issuance of a new policy to the insured at the insured's age at the  
1-41 time the option is exercised.

1-42 (d) The exercise of an option under Subsection (a) may not  
1-43 result in a reduction of the cash value of the life insurance  
1-44 policy.

1-45 Sec. 1101.204. PROHIBITION: ISSUANCE OF SUBSEQUENT  
1-46 POLICY. An insurer that issues a life insurance policy that  
1-47 provides an initial face amount of \$2,000 or less and that includes  
1-48 the option to increase coverage required by Section 1101.203 may  
1-49 not issue a subsequent life insurance policy that provides an  
1-50 initial face amount of \$2,000 or less to the same insured.

1-51 Sec. 1101.205. REQUIRED ALTERNATIVE PAYMENT OPTIONS.

1-52 (a) Unless otherwise prohibited by law, an insurer that offers a  
1-53 life insurance policy that provides an initial face amount of  
1-54 \$15,000 or less must offer alternative premium payment options to  
1-55 the payment options the insurer would otherwise have offered if, at  
1-56 any point in time over the term of the policy, the cumulative  
1-57 premiums paid, less dividends paid by the insurer, might exceed 250  
1-58 percent of the face amount of the policy.

1-59 (b) For purposes of this section, the insurer must offer  
1-60 alternative premium payment options that include payment schedules  
1-61 that allow for shorter payment periods and schedules for making  
1-62 payments less often.

1-63 (c) The alternative payment option information shall be

2-1 provided to the policyholder before the sale of the policy, and  
 2-2 again not later than the day on which the policy is delivered.

2-3 Sec. 1101.206. MINIMUM DISCLOSURE REQUIREMENTS--APPLICANT  
 2-4 FOR INSURANCE COVERAGE. (a) At a minimum, an insurer subject to  
 2-5 this subchapter shall disclose to an applicant, with respect to a  
 2-6 life insurance policy applied for:

- 2-7 (1) the initial face amount under the policy;  
 2-8 (2) the premium for the policy by selected mode of  
 2-9 payment, on an annualized basis;  
 2-10 (3) if applicable, the fact that the cumulative  
 2-11 premiums for the policy may exceed the face amount over the life of  
 2-12 the policy; and  
 2-13 (4) the possible advantages of coverage under a single  
 2-14 policy with a larger face amount rather than several smaller  
 2-15 policies.

2-16 (b) For a guaranteed issue life insurance policy, the  
 2-17 insurer shall provide in the disclosure statement, in addition to  
 2-18 the information required under Subsection (a), a statement to the  
 2-19 applicant regarding the effect of good health on the cost of the  
 2-20 coverage provided under the policy and the possible advantages of  
 2-21 alternative insurance products.

2-22 Sec. 1101.207. APPLICANT'S RIGHT TO CANCEL. Each applicant  
 2-23 for insurance coverage under a life insurance policy has the right  
 2-24 to cancel the policy before the 31st day after the date of delivery  
 2-25 of the policy and obtain a refund of any premium paid. The insurer  
 2-26 shall provide each applicant for insurance coverage under a life  
 2-27 insurance policy written notice of the 30-day right to cancel.

2-28 Sec. 1101.208. TIMING OF DISCLOSURE TO APPLICANT. An  
 2-29 insurer that issues a life insurance policy shall provide the  
 2-30 disclosure and notice prescribed by Sections 1101.206 and 1101.207  
 2-31 on application for coverage.

2-32 Sec. 1101.209. MINIMUM DISCLOSURE REQUIREMENTS--POLICY  
 2-33 OWNER. At a minimum, an insurer shall disclose to the owner of a  
 2-34 life insurance policy, as of the date of the disclosure:

- 2-35 (1) the face amount under the policy;  
 2-36 (2) the premium for the policy by selected payment  
 2-37 mode, on an annualized basis;  
 2-38 (3) the cumulative premiums paid for the policy;  
 2-39 (4) the cash value of the policy, if any; and  
 2-40 (5) the year in which cumulative premiums will exceed  
 2-41 the face amount.

2-42 Sec. 1101.210. TIMING OF DISCLOSURE TO POLICYHOLDER.  
 2-43 (a) An insurer that issues a life insurance policy shall provide  
 2-44 the disclosure prescribed by Section 1101.209 on delivery of the  
 2-45 policy, and at the time that, on payment of the next premium under  
 2-46 the policy, the cumulative premiums paid will exceed the face  
 2-47 amount of the policy.

2-48 (b) The insurer shall also provide the required disclosure  
 2-49 to each policyholder on:

- 2-50 (1) the fifth anniversary of the date of the initial  
 2-51 delivery of the policy; and  
 2-52 (2) every subsequent five-year anniversary of the date  
 2-53 of the initial delivery of the policy.

2-54 Sec. 1101.211. EFFECT OF RIDERS. (a) For purposes of this  
 2-55 subchapter, cumulative premiums include premiums paid for riders  
 2-56 that increase the face amount of the policy for the insured, but do  
 2-57 not include premiums for riders issued to the insured for:

- 2-58 (1) accidental death benefits;  
 2-59 (2) permanent disability benefits; and  
 2-60 (3) any other benefit similar to accidental death  
 2-61 benefits and permanent disability benefits.

2-62 (b) Cumulative premiums do not include premiums paid for  
 2-63 riders on persons other than the insured.

2-64 Sec. 1101.212. RULES. (a) The commissioner may adopt  
 2-65 rules necessary to implement this subchapter.

2-66 (b) The commissioner by rule shall require that the  
 2-67 disclosure statements required under Sections 1101.206 and  
 2-68 1101.209 and the notice required under Section 1101.207 shall be  
 2-69 substantially in the form prescribed by the commissioner.

3-1 (c) The commissioner may adopt rules to allow an insurer to  
3-2 include the disclosure statement required under Section 1101.209  
3-3 with any other mailing to the policy owner.

3-4 [Sections 1101.213-1101.250 reserved for expansion]

3-5 SUBCHAPTER F. UNCLAIMED BENEFITS UNDER CERTAIN POLICIES

3-6 Sec. 1101.251. APPLICABILITY. (a) This subchapter  
3-7 applies to each insurer authorized to write life insurance in this  
3-8 state operating under Chapter 841, 881, 882, 884, 885, 886, 887,  
3-9 888, or 982, including an insurer exempt under Section 887.102.

3-10 (b) This subchapter applies to any individual or group life  
3-11 insurance policy issued in this state, including an industrial  
3-12 insurance policy offered under Chapter 1151.

3-13 Sec. 1101.252. DUE DILIGENCE STANDARDS. (a) As provided  
3-14 by this section, an insurer shall exercise due diligence relating  
3-15 to the payment of unclaimed benefits payable on the death of an  
3-16 insured who may be covered under more than one life insurance policy  
3-17 issued by the insurer.

3-18 (b) On submission of a death claim form under an insurance  
3-19 contract, an insurer shall conduct a reasonable search for other  
3-20 policies on the decedent's life.

3-21 (c) The insurer shall investigate additional policy files  
3-22 identified by the search, for which liability is not immediately  
3-23 verified, and complete a determination of liability not later than  
3-24 the 180th day after the date on which the claim is filed.

3-25 (d) If other policies exist, the insurer shall notify the  
3-26 policy owner, if different than the insured, and the beneficiary  
3-27 and shall arrange for payment under the policies.

3-28 (e) Each insurer shall adopt a written claim processing  
3-29 standard and methodology that will allow the insurer to process a  
3-30 death claim, endowment claim, or other claim presented against a  
3-31 life insurance policy or an accidental death or dismemberment  
3-32 policy.

3-33 (f) The insurer, as a part of the claim processing standard  
3-34 and methodology adopted under Subsection (e), shall inquire, for  
3-35 each claim filed with the insurer for death benefits, about other  
3-36 names by which the insured may have been known, such as a maiden  
3-37 name, a hyphenated name, a nickname, a derivative form of first and  
3-38 middle name, or an alias, and the date of birth of the insured. If  
3-39 the filer of the claim form includes that additional name  
3-40 information on the claim form or if the insurer otherwise knows  
3-41 about other names by which the insured may have been known, the  
3-42 insurer shall include that information and the date of birth, if  
3-43 available, as a part of its search criteria to determine whether  
3-44 additional policies exist.

3-45 (g) Each insurer shall maintain claim records in a manner  
3-46 that demonstrates that the insurer has followed the written claim  
3-47 processing standard and methodology required by this section.

3-48 SECTION 2. Not later than January 1, 2004, the commissioner  
3-49 of insurance shall adopt rules as required by Subsection (b),  
3-50 Section 1101.212, Insurance Code, as added by this Act.

3-51 SECTION 3. This Act takes effect September 1, 2003, and  
3-52 applies only to an insurance policy that is delivered on or after  
3-53 July 1, 2004. A policy that is delivered before July 1, 2004, is  
3-54 governed by the law as it existed immediately before the effective  
3-55 date of this Act, and that law is continued in effect for that  
3-56 purpose.

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